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AFFORDABILITY OF HOUSING

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

THE DECLINING ABILITY OF FIRST TIME HOMEBUYERS TO PURCHASE A HOME

SEPTEMBER 14, 1987—MEMPHIS, TN

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AFFORDABILITY OF HOUSING

MONDAY, SEPTEMBER 14, 1987

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Memphis, TN.

The subcommittee met, pursuant to notice, at 10 a.m., in room 391, U.S. Federal Building, 167 N. Maine St., Memphis, TN, Senator James Sasser, presiding. Present: Senator James Sasser.

OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. Let me tell you what we're about this morning. We're in the process in the Housing Subcommittee of the Senate Banking Committee on which I serve of trying to draft the first comprehensive housing bill we've had in the country in a number of years.

The subcommittee has been relatively inactive over the past 6 or 7 years on questions dealing with housing. And we feel that we're approaching a crisis. In fact, we are already experiencing the crisis and it continues to build in certain areas of the housing industry.

The subcommittee is particularly concerned, about the affordability of housing and concerned about the whole question of the ability of first time homebuyers to purchase a home.

What we're seeking to do here today is to throw out a number of questions and to get your responses to these questions. To get your perceptions as to the problems as you perceive them and what you perceive the solutions to be. What role, if any, Government, particularly the Federal Government, can play in the solution of these problems? And what you say is going to be part of the official record and will be scrutinized carefully by the members and staff of the Housing Subcommittee as we put together a committee print to try to deal with the problem.

Now, the Chairman of the subcommittee, Senator Cranston has held a similar meeting to this or similar hearing in at least one location in Los Angeles, CA. And I anticipate that other members of the subcommittee will be holding similar discussions or hearings in their States.

It's a very timely matter because just yesterday the New York Times Sunday magazine had an article entitled, "Owning a Home Recedes as an Achievable Dream." So, that gives you some indication of the magnitude of the problem. It's now getting into the popular media. I guess, the New York Times Sunday magazine can be characterized as a popular media or fairly popular anyway. Affordable housing is something that people are very concerned about.

I would like to speak for a few minutes to establish a setting for this hearing here this morning. We're going to focus on the critical issue of homeownership affordability in the United States today.

I would venture to say that for most young Americans the words "housing" and "affordability" are becoming a contradiction in terms in the sense they simply cannot afford housing.

Since 1980, and that's only been 7 years ago, the rate of homeownership—which I consider the bedrock of our society—has declined after rising steadily for over 35 years. And the greatest decline has occurred among homebuyers who are 25 to 34 years old. Those are the first time homebuyers. Those are the ones that furnish the raw material, so to speak, for the upscale market later on. That first home buy is the seed capital that they use to, then, move up to other homes later on.

And I think what we're seeing really is a reversal of a fundamental trend in this country that has been universally credited with changing America from a nation of renters, which we were prior to World War II, to a nation of homeowners. Of course, with homeowners comes stable neighborhoods. With homeownership comes a better environment to raise children. And with that environment comes a more stable social fabric in this country.

Why are we seeing the reversal of a trend that has given all Americans the dream or actual opportunity to achieve a higher quality life? Well, I think the answer is this; this Nation no longer has a commitment to housing our people.

In 1949, just after the Second World War and almost 40 years ago, Congress announced the goal of providing a decent home and a suitable living environment for every American family. Now, that was a very ambitious goal; some might have said "overly ambitious" but that was the goal. That was the public policy of this country. We were going to move in the direction of trying to provide homeownership to our population. It was virtually unprecedented in Western civilization for a country to take this step.

We reaffirmed this goal in 1968. The Congress and the administration did for the whole decade of the 1970's. But I must say to you that since 1980 that situation has changed rather dramatically.

The present administration has drastically cut back on Federal housing assistance. They have recommended the abolition of the FHA, the Federal Housing Administration, which has probably done more than anything else to assist people in purchasing homes in this country. They have sought to end tax exempt bond financing of housing, which has been so helpful to us here in Tennessee. They've advocated a diversification of the thrift industry away from residential lending. And the administration has sought to impose user fees on secondary mortgage market agencies, in effect a tax on homeownership, a number of you have talked to me about that. And I've had some of you come and pull me out of the Budget Committee meetings in Washington to talk about this very critical matter of these user fees. And we've been successful in defeating them.

Now, when we consider the decline of the commitment on a Federal level to homeownership, then, I think we start to see the seeds of this decline in affordability and the homeownership and the country. To understate housing costs and decreasing opportunities

to buy a house, we have witnessed what I can only characterize as the least appropriate response on the Federal level.

Now, the evidence is clear. I think there's no dissention from this view, to my knowledge, that it's much tougher to buy a starter home today than it was 15 or 20 years ago or 10 years ago. Since 1970, the cost of housing has risen four times faster than the income of our people. I'm talking about median cost of housing and median incomes. And this problem is even more acute for low income families.

I'd like to say that our State of Tennessee and Memphis and Shelby County and West Tennessee have been an island safeguarded from these currents that have been going across the rest of the country, but that's simply not the case. According to the Federal Home Loan Bank Board, the median priced home in the State of Tennessee in 1986 was $88,000.

Now, the median family income in Tennessee is $24,400. On that median family income of $24,400, you can't afford an $88,000 home. If you can afford a home 2¼ times their annual salary, in order to buy the median priced home in the State of Tennessee, a family would have to be making $34,000, not $24,000. So, median incomes are about 33 percent or ⅓ below what it costs to buy the median priced home in our State.

And for lower income people in our State, the situation is even worse. For those 735,000 households in our State who earn less than 80 percent of the median income, there's just very little housing available.

In fact the Tennessee Housing Development Agency is projecting a hugh shortfall in the amount of housing units here that are needed to meet the demand. This shortfall will come about as a result of new households being formed, in-migration of new people coming into our State. We're proud to have them, but they have to be housed, also. And will come about from the need to replace old housing stock. That becomes greater every year. And the problem is going to be most severe in the four major urban areas of Tennessee. To give you some idea, by 1990, and that's less than 3 years away now, the Tennessee Housing Development Agency estimates that there will be an unfilled need for over 19,000 housing units in Davidson County, 20,000 housing units in Hamilton County, 22,000 housing units in Knox County and, get this, a whopping 57,000 housing units here in Memphis, in Shelby County.

So, I think clearly we need to plan ahead and make a strong response. What do we do? Well, that's one reason I've invited all of you here today to tell us what we can do to and how we can address this problem. But there's some things that come to mind. Some people will say, "one of the problems is that the land cost component of housing has just gotten so high." If that's the case, maybe we ought to maximize the use of Government owned land across the country and across the State. When you look around you find that the Government owns a lot of land, whether it's local government, State government, or Federal Government. A lot of it is land that--in urban areas could be—perhaps, put to its highest and best use as housing.

Maybe we ought to increase the use of public/private cooperative efforts in pooling resources to finance lower cost loans. Maybe

there ought to be a greater commitment to housing loans by our financial institutions; lending for housing is not unprofitable. Home lending is not only good for those who want to buy a house, but it's good for the overall local economy. I don't know of anything that's better to stimulate a local economy than getting the homebuilding folks really out there building houses. And it increases employment and tax revenues; it's a real lift.

So, I'm looking forward to this discussion today. We have a big problem on our hands. I'm hopeful that today's testimony, and that's what you distinguished gentlemen are going to be giving us today, testimony. I'm hopeful that what you have to say will give us significant input in trying to make the housing laws of this country more helpful to our people.

Now, let me go around the table. You all know each other I suppose, but in the likelihood that some of you do not, I'm going to take it upon myself to introduce you. And I'll begin with Mr. Archie Willis, who is a developer and a mortgage banker, a vice-president of Supreme Mortgage Co. here in Memphis, currently participating in housing loan programs with the Tennessee Housing Development Agency and Shelby County government.

Then Mr. Shep Wilburn, a developer here in Memphis, builds multifamily rental properties.

Mr. Henry Turley, distinguished Memphis developer, who built the River Bluff condos we're all familiar with, has just been appointed to the Board of the Tennessee Housing Development Agency by the Governor. And, Henry, I applaud that appointment. He's also the chairman of the Memphis Chamber of Commerce's Housing Task Force.

And Professor Gaylon Greer. Professor Greer is at Memphis State's Business School. He teaches real estate. He's currently writing an article for *Money Magazine* on the first time homebuyer. And we look forward to reading that article, Professor Greer.

Mr. Frank Crump, a man who needs no introduction, is the president of the Tennessee Mortgage Bankers.

Mr. Tim Bolding, Community Development Director for Shelby County.

Hershel Lipow, who served in Washington on a congressional staff there, and with the staff of the American Institute of Architects, is very knowledgeable on housing matters.

Mr. Stan Houle, director of technical services for Tennessee Housing Development Agency.

Mr. Jerry Gillis, is an old friend and very knowledgeable on the home building industry and of the needs of both the consumer and those who build houses.

Jim Ross, President of Leader Federal, the largest savings and loan in the State of Tennessee. And I'm proud to say, all of our S&L's are healthy here in Tennessee. And I like to brag to my colleagues from Texas; they can sure learn something from our Tennessee S&L's.

And Joe Garaffa. Joe, am I pronouncing your name?

Mr. GARAFFA. That's correct, sir.

Senator SASSER. Terrific. I'm not very good at name pronunciation. He's the director of our Memphis HUD office here and does a good job.

Terry Lynch, one of our leading realtors here in Memphis and Shelby County.

Mr. C.R. Grantham, the head of the National Bank of Commerce, Real Estate Lending Division. And, Mr. Grantham, we're delighted to have you here today.

Have I missed anybody, Gordon?

Mr. STODDARD. No, you haven't, Senator.

Senator SASSER. All right. Well, now that I filibustered here for about 40 minutes, why don't we get going. I'd like to begin the discussion at this point and get your response to this query: What do you think should or could be done to meet the needs of the first time homebuyer? First time homebuyers, nationally, typically account for about 40 percent of the homebuying market.

Here in Tennessee, unhappily, they account for only about 25 percent of the homebuying market. And I think that indicates to us that perhaps our problem with first time homeownership here in Tennessee is perhaps more acute than in other areas of the country. So, what do you think we should do to meet the needs of the first time homebuyer?

Mr. LIPOW. Senator, If I could start?

Senator SASSER. All right, Hershel.

STATEMENT OF HERSHEL LIPOW, DIRECTOR OF COMMUNITY DEVELOPMENT OF MEMPHIS, TN

Mr. LIPOW. First, let me say thank you very much for the opportunity to be here. As most of us know, our senior Senator is a very effective legislator and has been very concerned about urban problems. We don't get the opportunity very often to say thank you.

Senator SASSER. Thank you.

Mr. LIPOW. The U.S. Conference of Mayors this year gave our Senator a special award for being a distinguished legislator and his work in preserving the Community Development Block Grant Program.

And his concern for low income persons, as well as moderate income persons—indeed, all Tennesseans, is something we should be very, very proud about. I applaud you personally and professionally for your interest and your dedicated service to Tennessee.

Senator SASSER. Well, thank you, Hershel. You're kind to say that.

Mr. LIPOW. I would like to also request of you, if possible, that we extend the record for a couple of days so that we might submit written materials to you?

Senator SASSER. Yes. The record will be held open for a period of 10 days. And you may submit written materials, or as we say in the Senate, revise and extend your remarks. If you wish to and some of you are running up on a time problem, we could extend it even longer than 10 days. Our mission here is to develop information.

Mr. LIPOW. Let me give you three quick suggestions and, then, open it up. First, is creditworthiness. We found that many first time homebuyers have had credit difficulties or cannot qualify for a loan on the basis of past experience. And that whole realm of Federal involvement and credit reporting is something that's a cor-

ollary to the actual financing of housing, but very important in the human side of developing loans.

Second, is the question of down payment and the Nehemiah concept that's been developed to provide downpayment assistance is very important. Because oftentimes persons could afford a monthly payment, but they cannot really get that first downpayment together to buy their home.

And then, third, would be appraisals and the whole question of affirmatively marketing neighorhoods, working with lending institutions to insure that red lining does not occur, that FHA receives a good healthy understanding of the dynamics in neighborhoods, so that we can get the value of the property up to the point where a sale, perhaps with rehabilitation, can occur.

Senator SASSER. OK. Thank you.

Mr. GARAFFA. Senator, if I may, Joe Garaffa from HUD. If I may just continue through that.

Senator SASSER. Yes, Joe. You go right ahead.

STATEMENT OF JOE GARAFFA, DIRECTOR OF HUD, MEMPHIS, TN

Mr. GARAFFA. First of all, your comments were well said. I applaud you for those comments. There is one immediate problem that I want to bring up and it's a temporary problem.

At the end of the fiscal year, FHA runs out of authority. If we don't have any knd of a bill, we're not going to have temporary authority, and all of the lenders will be stymied in making loans for that dead period. So, that's an immediate problem.

Senator SASSER. Joe, there's some good news. We passed some legislation that's in conference now that I think is going to do away with our problem of the FHA becoming authorized toward the end of the year.

And—this is Gordon Stoddard, who works for me on the Banking Committee and handles our banking and housing matters. Gordon keeps up with these matters even more carefully than I do. He has indicated that—he's pretty sure the bill is going to become law. So, that's good news.

Mr. GARAFFA. And now, just to pick up on what Hershel said, and I think—I think it was one of the important points. I think it's up to every HUD manager on a local level to explain and to voice the fact that we're there, FHA is there to make those marginal loans.

I want to quickly talk about that because you can get a lot of heat about it. Because nationally with marginal loans, our insurance is going to take losses on loans, but that's what we're all about. And I think not only on the local level but nationally. Our national leaders in HUD must express the view that's what FHA and the insurance end of FHA is all about.

Also, the point he brings out about FHA working with insuring and insuring houses in more marginal areas. Many times the appraisal—the appraisal is a problem there. We on the local level have to cooperate in those efforts to make that housing available for first time homebuyers.

But I think we have to keep—we, the industry in general, have to keep hammering the point that FHA is there to make housing

available to the citizens, particularly to the first time homebuyer and the marginal folks who can't get loans on the conventional market. And that's what FHA's about. We've got to keep expounding that viewpont and make sure everybody understands us, what we're all about, particularly FHA. Make sure FHA understands us.

Senator SASSER. All right.

Mr. Ross. Senator.

Senator SASSER. Yes, sir, Mr. Ross.

STATEMENT OF JIM ROSS, PRESIDENT OF LEADER FEDERAL SAVINGS AND LOAN, MEMPHIS, TN

Mr. Ross. Senator, it seems like as we talk about the two issues, affordability and, then first time homebuyers, Hershel mentioned the downpayment policy. And I think with people just starting into a work environment, there is a real difficulty accumulating the cash to make a downpayment. If there were a variety of ways that you can use what used to be IRA's or some tax credit as a way to accumulate even tax free interest until you can then make the downpayment to get into the housing, a lot of times they can afford the monthly payment but cannot afford the first downpayment.

It seems to me that that is at least one issue, and that's a separate issue. I think that's at one extreme. The other is affordabilty and the low income issue. I think in Shelby County we have done a remarkable job of addressing and—or in the testing of a solution to that problem.

Tim Bolding is actually heading up that effort with a joint effort with Jerry Gillis. Tim Bolding. I was involved. I don't recall particularly any others, maybe, around this table. Where the State actually gave a grant to subsidize the interest for low income families. And at the time of our task force analysis, we discovered that at that time interest rates were about the 11 or 12 percent range.

If we could buy—if we could subsidize the rates by 50 percent based on the average median income for four family—a family of four in Memphis, TN, then, approximately 85 percent of our population could afford a $30,000 mortgage.

Now, of course, the land issue came up. And as part of ths program we're using Government land that has been reacquired because of taxes not being paid. That is, let's say, in the oven. The results are yet to be known.

But from my view of our institution Leader Federal and Mr. Willis' institution—in fact, his father, A.W. Willis, was also on our committee. He helped draft the legislation for the State that kicked this thing off.

We have gotten a significant amount of loan applications, I believe, Tim. We're in the process of closing those loans and they are to exactly that market of low income families and promotes homeownership. Exactly what you said, which is what the thrift industry had been about since its inception back in the early 1900's.

So, at least two solutions to two particular problems.

Senator SASSER. Jim, I think—I think you make some good suggestions. And this whole business about the tax free accumulation of the downpayment, I think that's something that ought to be explored.

Mr. GARAFFA. Senator, I wanted—I wanted to just make one other quick point, then, I'll be quiet. Because I tend to talk too much.

But on the affordability issue, the department has a program now whereby—and it's a major goal for us the next fiscal year, whereby we're going to work with communities throughout the States—throughout the State in order to try to determine if there are any factors in their local zoning or building departments, et cetera, which are pushing up the cost of their housing. Try to work with them to reduce those restrictive requirements to bring the costs down.

So, we will be—HUD will be working with the community leaders. In fact, we'll be working with you, Tim, on that. We've done a little in the past and will continue. But the affordability issue is a real issue that we know we have to address, sir.

Mr. BOLDING. I'd like to respond to Mr. Ross here just a second, if I could.

Senator SASSER. Go ahead, Tim.

STATEMENT OF TIM BOLDING, DIRECTOR OF COMMUNITY DEVELOPMENT, SHELBY COUNTY, MEMPHIS, TN

Mr. BOLDING. A revolving loan program and a homestead program are two programs that we started out of the Shelby County's task force in as far as State legislation can get into both of those. One of them, as you mentioned, provided a low interest loan which is one of the major obstacles in acquiring a house. And the other one, the homestead, allows us to use this Government publicly held properties, mostly tax lien property and surplus property. And those are going now and there would definitely be some role for the Federal Government to participate in either one of those programs.

But a couple of other things I wanted to bring out, and specifically related. One of the biggest flaws we have in our revolving loan program in providing a low interest mortgage, it's so complicated that—local government puts in some money, the State government puts in some money. We're making loans 3, 4, 5 percent out there and hitting an average customer that's making $14,000 a year. She's making—it's a lady with two kids. She's making $14,600. And she's buying a house that costs around $38,000. That's the target market that we're hitting with this program.

Now, the problem is that the lenders can't do anything with those loans. They cannot enter into the secondary market because there is no secondary market out there for these loans. And unless the THDA [Tennessee Housing Development Agency] provides the mortgage money, we have a real problem attracting lenders to participate in the program. With THDA that's really not a problem because they are financing it with bond proceeds and it's really not an issue to them. However, if Archie or Mr. Ross or any of the banks in town want to participate in our program, they'd have to keep their moneys tied up in that loan for the life of the loan. So, my suggestion is that something be established within, say, the Ginnie Mae or Fannie Mae or wherever that would participate with locally initiated low interest loan programs.

Shelby County put $1 million into this. The State put $2½ million. But we can't recycle those dollars. If we had a mechanism to recycle those dollars, we'd be taking one appropriation at the local level. They'd use up that $3½ million and do it again.

Right now, that's an impossibility. And what it's going to take is an additional appropriation from the local government and the State government every time we want to build this fund back up.

So, the secondary market issue's been a problem for us and it's a real flaw in our program. And I don't know how we're going to get around that without some intervention at the Federal level.

Mr. LIPOW. Indeed, there is the model. Fannie Mae is buying in the secondary market from LISC a social investment. Somehow we have to stop thinking of housing as strictly a social investment. We can borrow on a car at 3.8 percent. Buy a house with 10.9 or at 12 percent, or whatever two plus prime is. And somehow or another cars have become more important than houses. We've got to turn that around. And the same sort of incentives that allowed GM to write their loans ought to be encouraged at the Federal level to make housing affordable once again.

Mr. ROSS. As Tim said—I think we're getting about 70 percent of those loans, Tim? And we're just keeping them in our portfolio. The long term loan is just part of our commitment to the community, to the obligation we have to serve the community. And we do not utilize the THDA. It's simply a portfolio investment for us. And we think that's good—we think that's good for Memphis. Being a part of the task force I felt obligated to participate heavily in it because I really think it's an excellent model. I think it's a model that can be replicated. You heard the numbers. We're making loans to people who are earning $14,600 a year which is significantly lower than the Tennessee median income that you mentioned earlier.

Senator SASSER. Right.

Mr. ROSS. This is important. This is important for Memphis and Shelby County.

Senator SASSER. You're making loans to people who make $14,000 a year and they're buying $34,000 homes?

Mr. ROSS. That's the average mortgage. And we make a—as an institution we are making a market rate loan. Tim in his revolving loan fund is subsidizing the interest rate as a fixed rate loan. But he subsidizes it from his revolving funds. The homeowner then makes their normal monthly payment, and we subsidize—or that subsidy then comes in to take care of the full interest rate.

It seems to be a very effective and efficient program I think, Tim. Our limitation in the long run will be filling up our portfolio with fixed rate mortgages, so we don't begin to look like a Texas thrift.

Mr. LIPOW. Jim, it's not even a long run problem.

It's short run. We have to be honest. Housing is expensive. Tim's out of money. You're not going to have a revolving fund when you make a 20 to 30 year mortgage.

Mr. ROSS. That's right.

Mr. LIPOW. And have a monthly payment coming in unless it's well capitalized.

Mr. ROSS. That's right.

Mr. LIPOW. And you have that infusion. And so we have to be honest. Whatever we're doing ought to be both programmatic and in the right spirit of taking old values and having new inventive ideas, but face the fact that it's going to be expensive. Expensive for someone.

Mr. ROSS. Did we not discover though that a lot of people who are in public housing, that monthly payment would be equivalent to the mortgage payment for a single family?

Mr. BOLDING. There's approximately 5 percent of the population in public housing in Memphis that pays over $200 a month rent. And out of that there's approximately 100 residents in Memphis Housing Authority that pay $300 or more in rent. Those are potential customers under this program, if we can get past the credit and the downpayment issues that Hershel mentioned.

Senator SASSER. Mr. Willis, let me get Mr. Houle. He's been trying to get my attention here. And we'll come back to you.

STATEMENT OF STAN HOULE, DIRECTOR OF TECHNICAL SERVICES, TENNESSEE HOUSING DEVELOPMENT AGENCY, NASHVILLE, TN

Mr. HOULE. Just to get in very briefly, Senator, I'm Stan Houle, director of tech services in Tennessee Housing. As been mentioned several times around the table, our primary role on the State level is the issuance of tax exempt mortgage revenue bonds, of which you have been a strong supporter of, to finance housing strictly for first time homebuyers, addressing this problem directly.

The biggest problem that we're facing at THDA is the program is going to end the end of next year. And without this program what's going to happen is that to address the same group of people we're talking about, that Tim's talking about, right now, what the Government is going to have to do to solve that problem elsewhere. Because if you lose tax exempt bonds, you're going to have to come up with some sort of Federal expenditure to take their place.

Senator SASSER. I've cosponsored legislation to extend that, by the way.

Mr. HOULE. Yes, sir.

Senator SASSER. And we hope it'il be successful.

Mr. HOULE. Unfortunately, what's happened in the recent past is every time the legislation is extended, additional requirements and additional restrictions are placed on it, the mortgage revenue bond program, making it an increasingly less attractive investment. If it's unattractive, then, it's going to cost more for us to sell our bonds.

For example, in the recent past we've been able to issue bonds that would make home loans between 2 and 2½ percent less than the commercial market. Right now, our latest bond issue is about 1, 1½ points less than the commercial market.

So, the spread and the difference between tax exempt financing and regular market financing is increasingly getting a little bit closer, which makes it a lot harder for us to come up with a little bit of innovated programs because it's just harder to find financing.

The second thing is like everybody has mentioned around here, while we have tax exempt financing, we're still—and we're restrict-

ed. We don't have the mechanism to provide that upfront assistance.

To kind of mirror some of the other comments that have been made. Three things that we came up with in terms of homeownership programs; mentioned before, this individual homeownership savings account similar to the IRA. We feel that that would do—that would be a great step in that direction.

The second thing, though, is that for those people with very low incomes, the people in the public housing in the $12,000 to $13,000 range, they may not have any money to put into an IRA or anything similar to that, so, we would support—we would look at a federally established system somewhat similar to Memphis'. Even similar to what had been used in Tennessee before in urban development action where Federal funds were used to help people get into housing. Help that first time homebuyer.

The last thing that we would consider is that HUD has a limited counseling program to assist people of lower incomes who are moving into housing. We would strongly suggest that anything that's used to get people into housing be supplemented through a counseling program both beforehand and afterward. So that—as is what has happened many times when the Federal Government is going to come up with housing programs, that people get into housing, they don't have a whole lot of financial interest in the house, major problems come up and they walk away.

So, a counseling program tied on the end of it would at least be a first step in keeping those people in the house. Because it does no good to get someone in, if a year from then, you have to foreclose on them.

Senator SASSER. Right. Let's go to Mr. Willis, and, then, Henry Turley.

STATEMENT OF ARCHIE WILLIS, VICE PRESIDENT OF SUPREME MORTGAGE CO., MEMPHIS, TN

Mr. WILLIS. As you know, there was a disproportionate amount of tax exempt bonds issued for rental property versus single family. And I guess that goes back to some of your opening remarks relating to the trend toward a nation of renters versus a nation of homeowners. I'm on the county's Health Aid and Housing Board and during my tenure on the Board we've issued, you know, millions and millions and millions of dollars for rental projects.

Now, most of these projects had what was considered by a lot of people to be a low income provision where 20 percent of the units had to be set aside for those people making 80 percent of the median income. As you just indicated, the median income of Shelby County is a lot higher than what most people consider to be for a low income person. Consequently, those units, although they met the technical guideline, did not in fact help people—low income people with their housing problems.

That's been changed somewhat in the new tax legislation. And, as a matter of fact, it's probably been changed to drastically. We have not issued any tax exempt bonds since the new tax law has been implemented. We haven't even had any applications on the

county Board. That's a function of that as well as a function of the market, which is fairly saturated at this point in time as well.

But there's been a cap on the amount of bonds that THDA could issue for single families and that was based on the population of the State. And I think that's been reduced, too, under the new tax law for the amount of bonds that can be issued statewide has been reduced again for homeownership. And, again, I think there's a disproportionate amount of bonds available for rental property.

Following up on some comments on revolving loan bonds. We've been participating in the program and we do think it is a good model. The biggest obstacle to overcome—there's a lot of problems to address, but the biggest obstacle is the financing cost. The revolving loan—they want to address their problem by bringing down the average rates of the mortgagor between 3 and 7.9, or whatever is the percent. And that's a—very, very effective, too.

There's a lot of flaws in the program, administrative flaws. There are a lot of underwriting flaws in the program that you would never know until you get into a program. And I think we're going to be able to work a lot of those out if we're able to get another round in the program and expand the program.

On the Federal level that kind of program whereas the Federal Government's role would be more of a subsidy role, but being with a private lender where if you could write down a mortgage loan and let the private lender still handle the loan. Again, you have to deal with the problem of secondary mortgage.

Supreme, we're mortgage bankers. We don't have funds to lend anywhere. We don't have deposits. So any loan that we make, we have to sell to another institution. So, the only way that we are able to participate in this is through THDA. We're using THDA bonds as a permanent source. If we did not have THDA, Supreme would not be able to participate in revolving loan line. Next, if that's the case, then any mortgage banking operation versus a Leader Federal Savings and Loan or a banking institution that actually has a deposit system within their own portfolio.

Some of the other problems people have mentioned, the downpayment problem is a big problem. The ideas that have been kicking around are good ideas. My company has implemented a sweat equity program for new construction. What that does is, we allow the home the front end cost of a $40,000, $45,000 house would be about $2,000. Under our sweat equity program, we allow the homebuyer to earn about 50 percent of their downpayment for front end costs, which is about $1,000. They do some painting. They put insulation in the walls. They do some cleaning up. They do a little landscaping. We have a list of things that they're able to do to earn credit against their front end costs. And so far the program has been very successful. Of all the houses we've done, 90 percent of the participants have been female, the female head of the household with two children, the tenant alluded to earlier. That's one way we've been addressing the downpayment problem.

The creditworthiness is a whole—a reign of it that needs to be addressed. You're talking about a group of people that really had no hope, as you indicated, of their owning a home. But it's no longer the American dream because it's not something that—it's a dream, but it's not an attainable dream at this point.

So you're dealing with a customer base that's not prepared financially or even mentally to buy a home. They think that they're going to be renting when they're looking down the road. Where they one day maybe can buy a house, they're not preparing themselves to go into homeownership. Consequently, they have a lot of—they are living from paycheck to paycheck using all their disposable income on other items that aren't need items, but they're items that they're spending money on because they don't feel the need or see a way to save in hopes of buying a house.

The appraisal problem is a tremendous problem. Whenever you're in a situation where you're dealing with the inner city neighborhood, under the normal appraisal process, you're looking at comparable sales in the neighborhood. If you're talking about inner city neighborhood and older inner city neighborhood there are not any comparable sales in that neighborhood. If there are, they're going to be a lot lower in price than the new house of comparable size and features for that neighborhood. Consequently, the appraisers come in at a much lower figure than a developer is able to live with. And that again stymies the whole process.

Our local FHA office has been very cooperative in trying to help us with some of our problems. But the whole philosophical process is so ingrained in this appraisal process that it's just very, very difficult for everyone to see the problem and to see a way out of the problem and to make the whole thing work.

Mr. GARAFFA. But you can't change the basic philosophy of how an appraisal is done. Or otherwise that's a problem. For an appraisal is an appraisal. And you can't make it come out higher just to machinate a particular—to get the value up.

Mr. WILLIS. We're not trying to do that. With our cases, we're always able to get to our point and it's worked out, as you know, OK with FHA. But it's a 3 month, 4 month, or 6 month processing. So, the end result is not a result that's unreasonable, but the system does not allow for this to happen in an expeditious time frame.

Mr. GARAFFA. If I may just say something. To make it easy. If it cost $40,000 to build the item, but when you appraise it, the market value of it is only $35,000. Because that's what the market value is. So, even though it cost $5,000 more to build, you can't get appraisal high enough because the market value isn't there. I don't want to get into too technical a thing.

Senator SASSER. Yes. Joe, why is that? Because of the neighborhood?

Mr. GARAFFA. In order to go through the appraisal process, an appraiser must use existing comparables.

Senator SASSER. I get you. Right.

Mr. Ross. And they don't really do—an appraisal really doesn't look at someone—something someone said about understanding the dynamics of the neighborhood. I think a lot of neighborhoods are worth—the property is worth more than maybe the appraisal might say just because they have a good neighborhood association or coalition that's working within the neighborhood to have pride of ownership of keeping their houses maintained. How you deal with that, Joe, from an appraiser's standpoint, I honestly don't know.

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Mr. LIPOW. Let me go back to the loan value ratios or limited equity participation as a downpayment or a replacement cost assessment. Something other than the comparables. There are various methods of appraising. It's not a science yet.

Mr. GARAFFA. Yes, I understand. But if we start using replacement costs, we can get in big trouble with that.

Senator SASSER. Henry—does anybody else want to hear what Henry Turley's got to say?

STATEMENT OF GAYLON GREER, PROFESSOR AT MEMPHIS STATE UNIVERSITY SCHOOL OF BUSINESS, MEMPHIS, TN

Professor GREER. It's fascinating to hear scholars talk about appraisals that are too low when we've just gone through a whole series of articles and, actually, congressional testimonies about appraisals that were too high. You see, this—pressure to get the appraisals down low that you're now voicing—then, when the foreclosures occur, it's the appraiser's fault. Those appraisals were too high. We can't expect them to be very cooperative if you're trying to push the appraisals.

Mr. LIPOW. I think we're talking about different markets, though.

Professor GREER. Well, yes. Because the other market is already having consequences of this kind of pressure, you see. So, now we move the pressure to another market setting the stage for another cycle of the same thing. Just recognize it for what it is, though. Don't try to get the appraisers to stretch the facts as he sees them.

Mr. LIPOW. Well, I want him to stretch, but I don't want him to break the thin line of sanity that we've got going here.

STATEMENT OF HENRY TURLEY, CHAIRMAN OF THE HOUSING TASK FORCE, CHAMBER OF COMMERCE, MEMPHIS, TN

Mr. TURLEY. I think we really do hit on one of the key issues here because quite often the cheapest land for the developer is found in these ignored or skipped over inner city neighborhoods. And certainly the cheapest land for the municipality is found there because they're already served with the urban interest structure.

And I think dealing with this appraisal matter, and maybe you just become more aggressive with your insurance, I don't know how it's done, but it's critical to avoid abandoning these neighborhoods that we—in fact that's taken place for years and years. I think this is one of the key issues. It's not the reason I raised my hand. I wanted to ask a question.

It seems to me that—in that we in Shelby have taken the initiative to set up this revolving loan plan. We would be very well served by the development of the secondary market for the loans that are financed there in that way. And I wanted to ask if there is a model anywhere for the development of that secondary market that we might follow or encourge. And you mentioned, I think, Fannie Mae or whatever.

Is there something that we should develop further in this conversation?

Mr. LIPOW. Well, the hope, if I might just start on the answer, the hope is that the model that the low income housing task credit

is developing is the one that could be followed for all sorts of social investment loans. That is, a commercial bank taking out the credit from the nonprofit sponsor and creating his own secondary market with a pass through to Fannie Mae. LISC is doing that now. Some of the larger insurance companies are doing that in cooperation with Neighborhood Housing Services. National Housing Partnership is doing some of that.

But when we fall back into a more traditional single family taking out, we don't have the mechanism. And I think that's because all of our credit assumptions are really directed away from the low income side of mortgage lending. And we have to look to our conventional secondary market support system to expand their idea of what's marketable, bankable, lendable and follow it on up the chain.

Mr. GARAFFA. Hershel, there is a whole—there's a whole series of discussions that are needed on that. Before we started the meeting I was talking about the secondary—depending on who the mortgage banker, some of the investors are very, very sticky and they're looking for very clean loans. Consequently, it becomes very difficult for the lender to do the marginal loans or the low loans because, again, the secondary market is looking—they're not worried the loan—because they're looking for clean loans. And it's becoming more and more a problem.

Mr. LIPOW. I've got two personal recommendations. One is that we allow the Federal Financing Bank to capitalize a new insuring and secondary market source. Perhaps more immediate would be the creation of a trust fund which the Conference of Mayors is proposing that would allow both private and public philanthrophies and tax dollars to go into an actual buy out source of mortgages at the secondary market level. And it's worked well. Jim Rouse has recommended such things and they're doing it in Baltimore. And it's the kind of thing that I think the Federal Government had done with other trust funds. National Endowment.

National Trust Restored Preservation is a good model. But it has—it has some problems because it's not a budget thing and unless it's capitalized correctly, the Federal Government has some problems there, too.

But I think the clear indication is that we have to expand the concept of what bankable, marketable housing is on the low income side of things. So, that we get out of the charity and failing profit aspect of it and make it part of our general economy.

And there are a whole lot of assumptions that we make when we look at a house under $40,000 that aren't necessarily the condition that our economy would bear. If we just expand our definition to include some neglected areas in commerce and in trading in mortgages and so forth, I think we'd being a lot of ignored housing back into the marketable housing community.

Mr. GARAFFA. Senator, I have one question for you and the floor. We heard the problem of the downpayment being a problem. This is the question. Is it a good idea to talk about 100 percent mortgages instead of subsidies and what have you? Should FHA get involved with 100 percent mortgages?

Senator SASSER. I've got my own personal views. But I would be much more interested in hearing what this group has to say. What do you say about that, Jerry?

STATEMENT OF JERRY GILLIS, VICE PRESIDENT OF MEMPHIS HOMEBUILDERS, CORDOVA, TN

Mr. GILLIS. Senator, I have an address from a different standpoint, I think. As a homebuilder, we can't get the price of our products down to a level that the $14,000 people can afford, obviously, but there are still a great majority of people out there in the $20,000 to $25,000 income level, under the median income, that want a house and should be able to buy one.

And what Joe has touched on here with the 100 percent financing, I think, you can offset things. If a guy has the income to qualify, making real good income cannot save any or cannot get to the point that he can get the downpayment, but, yes, you ease the amount of cash required whether you go a 100 percent or 99 percent. You ease the amount of money required to get in.

But then the reverse side is: what about the guy that doesn't have quite the income to qualify, but he's extremely thrifty? He's always lived within his means. He's got money in the bank. And he can make the downpayment on a nice home, but he's real tight on qualifying income wise. Well, if he can make a larger downpayment, ease the qualifications through FHA. Give him a little bit better income qualification.

So, you—you're playing both sides of the fence there. The guy that's making money but can't save very good, you give him a chance. The guy that can save, that's got a tight income, you're giving him a little break.

Senator SASSER. Part of a sliding scale there.

Mr. GILLIS. A sliding scale type thing.

Senator SASSER. Right.

Mr. GILLIS. To fit the particular homebuyer.

Senator SASSER. Well, what do you think, Jerry, about 100 percent loans? Don't we want to give the homebuyer some sort of vested economic interest in the property? Haven't we had an unhappy experience with those persons who have no vested economic interest in staying in their homes?

Mr. GILLIS. I think you can have that. I think that if you check the VA record, they make a lot of 100 percent VA loans, I think you can find that, yes, their ratio may be a little bit higher than FHA's. I really don't know. I think that the point is that you look at it on a case by case basis. You do an out-reach education program. You educate the buyer that: Listen, your credit is important, number one. You may not have very much money in this house, but what would it be worth in 10 or 15 years? This could be your nest egg. In fact, for many people——

Senator SASSER. It's the only nest egg they'll ever have.

Mr. GILLIS. It is their nest egg. It's their whole retirement in many cases. So, I think an out-reach in an education program, if you go to a 99 percent or a 100 percent type financing, to let the people know this is important that you keep this—that you keep your neighborhood good, that you improve your house.

Mr. Ross. May I respond to that just from a lender's viewpoint who service the loans and when they don't make a payment has to go through foreclosure process which is very costly. We're always the bad guy as it turns out.

It seems that in the VA, 100 percent loans, for the first time we have quite a few loans in Texas, Houston particularly. The first time we're seeing VA—what's called "VA No Bid". VA bids maximum, which is their $27,000 guarantee, and what we thought was a very safe and secure 100 percent loan that may have traded owners three times and had no underwriting other than the first owner, we're taking very significant losses on those loans. And one of the things that's happening in Houston, someone may have put up 5 percent downpayment. The value of a home in Houston has declined by 40 percent. And the keys come in. The borrower simply moves over to a better neighborhood and buys now much more house at a lower cost than what he had with his existing VA mortgage.

Senator SASSER. That's if he abandons that house.

Mr. Ross. He has abandoned it. We get the loss. VA no bids it. And he has upgraded his housing costs at whose expense? Of the person who made the loan and at VA.

That's kind of into the appraisal process someone alluded to, I think, Professor, you might have, in Houston which is, I think, a unique—hopefully, once before they encountered their economy problem.

But we have found both in homeownership and in commercial development, if there is that economic vested interest, there is a greater sense of dedication to the house and there is longer—a longer term time spent in that house.

So, we would kind of vote against a 100 percent type of mortgage and ask for some other vehicle so that someone has to actually write a check and to say, "We're really putting our money in this house."

Mr. GARAFFA. Jim, excuse me. Before you let someone subsidize that downpayment for the homeowner. So, if you do that the homeowner still doesn't have a vested interest. I mean—but what I'm saying is, if we want a vested interest, then, it's got to be a real vested interest. Otherwise, forget about all these tricks to make it work. Do 100 percent.

Mr. Ross. Well, I was referring back to the time, I think, we were discussing some type of a tax credit savings set aside, a vehicle that allows that downpayment to be accumulated.

Mr. GARAFFA. All right. I've got to ask you; will that be, in your opinion, a real vested interest?

Mr. Ross. Oh, I think so.

Mr. GARAFFA. OK.

Senator SASSER. Terry Lynch has been trying to get a word in edgewise here.

STATEMENT OF TERRY LYNCH, TERRY LYNCH & ASSOCIATES REALTORS, POPLAR HOMES, MEMPHIS, TN

Mr. LYNCH. I just want to mention, I know we're talking about reselling new homes and I know Jerry probably stated the fact

pretty well that it's fairly difficult to build new homes under really about $65,000 and try to make any money doing it. So, you can become a taxpayer.

Our company has built a hundred houses in the last year, and, then, the highest price home we sell is $43,500. And, so, we've been relatively successful in selling new homes primarily to FHA and VA type buyers.

And what we found is the inconsistency within the mortgage banking business with which programs they are accepting and will or will not accept. Like there's—I think the programs are already in place that can work. The Shared Equity Program that Archie talked about is an excellent way of letting somebody both put some money up and put some time and effort and sweat into that house, which it should give him incentive not to—he or she—I agree with him, too, that more—over half of our buyers are women, head of households, which is a market that has to be addressed.

But the Shared Equity Program, which is something we've seen that is being worked fairly successfully in Nashville, and we have a hard time finding a lender in Memphis that will do that, will use that program. And I think the inconsistencies within the mortgage business since they've gone to direct endorsements makes it increasingly difficult for that buyer to find a way to get a banker, a mortgage banker, that will accept their loan whether—it would seem to me that if it's got an FHA insurance on it, it ought to be a loan that should be able to be sold on the secondary market. I understand it's a problem; that they basically want to pool them together. But it would seem to me that if it's got FHA insurance on it, that's what it's for is to protect that lender. And the FHA mortgage banker has basically underwritten that loan in using their criteria and has approved the loan and insured the money.

Senator SASSER. Well, let me ask some more questions here. No. 1, I'm concerned about the low income prospective homeowner. The person making $14,000 a year. But, I am also concerned about those who are making the median income or maybe even above the median income, the 20-24 year old through 34 year old couple who now are excluded from buying a home. What changes have occurred in the housing market that this group thinks has contributed to the inability of these young people to afford housing now? And what can be done about that?

Mr. GILLIS. I have a great answer. Senator, I still build some first time housing. I haven't gone completely to the move up market, which is a very nice market to be in now. The last major stab I had at it, I quite frankly was hurt and ashamed of the first time buyer because they expected too much. Today's first time buyer making $25,000, $24,000 or $25,000 a year wants to drive a Volvo or BMW and wear the finest suit in town and he will not buy a house unless it has a whirlpool or jacuzzi tub. And we built some very nice product in the $62,000-$65,000 range, windows and skylights and vaulted ceilings and all the bells and whistles that we could afford to put into them for that price, but we didn't put in whirlpool tubs because that's a $1,500 item, or $1,200 to $1,500. They wouldn't buy them.

Senator SASSER. Is that right?

Mr. GILLIS. I was totally, you know, just hurt. All new plans. Cut the profit margin. Did everything I could do to build—you know, this is not inner city. I'm talking about the yuppies, the young—they wouldn't buy them. I ended up just finally getting rid of them and walked away in disgust. So, I think a lot of them expect too much. I think that 25 to 35 year old generation may be just a little bit spoiled.

Mr. TURLEY. What did they do in the alternative, Jerry?

Mr. GILLIS. They rented from Fogelman an apartment with lofts and fireplaces and a big sauna and a swimming pool. That's why we're going to be a nation of renters. Because apartment projects are very attractive to the yuppies. I mean, it's got all these bells and whistles that you can't put in a house.

Mr. ROSS. For the financing costs. You know——

Mr. GILLIS [interposing]. Well, the only reason he could rent them at that price is because of the——

Mr. WILLIS [interposing]. Not only that. Maybe a guy like Fogelman can get a rate of 5 percent on bonds.

Senator SASSER. How can Tim compete with that?

Mr. GILLIS. I'm set at 9½ well, at that time 9½ to 10 percent FHA mortgage. You know, they're spoiled. They're not going to move. They won't become a homeowner because they want to still drive their BMW.

Mr. LIPOW. Well, you know, that's fine with me if they want to rent. If they're in a nice, comfortable environment, why not have that lifestyle.

Mr. GILLIS. Sure. But that's an answer to that particular market.

Mr. ROSS. Well, I think there's another issue, Senator. And I believe it's some changing demographics. You're seeing later marriages. And so I think that the Fogelman apartment gives them an opportunity to mingle more, if that's the right word. And you're out of place as a single homeowner without a family. So, I think just the fact that our population has decided to wait until they're 24 or 28 to get married is one of the reasons there's been more propensity to rent versus buying.

Mr. GILLIS. With less children, too.

Mr. LIPOW. I want to have a footnote to that lest the rest of the country think we're all sitting in hot tubs and saunas. What we're really talking about is production and a supply/demand question, which I think really relates back to our unique housing market. And indeed I think the Federal Government has to think more in terms of housing markets rather than the national economy or national financing because we have individual circumstances here in Memphis that may not apply to Washington, D.C. or New York City or Cleveland or Houston or San Francisco. In San Francisco the biggest issue is SRO and section 8 assistance That's not as bad a question here as our homeless situation is not as bad. But if you look at each individual market, then, I think we have to be very sensitive of the needs of all types of people. Because what we're trying to do is provide shelter.

And where production and new construction is a point of last resort, it probably ought to take a lower priority in our housing market. This may be heresay to the bankers and the homebuilders, but if people are happy in apartments and they have the apart-

ments and we're doing some small element of public financing for those apartments, so be it. But I don't think that's the case around the country. And it won't be the case forever in Memphis. Because as we grow, there will be new pressures for new construction and there will be a little more humility among all of us to accept shelter as it grows increasingly more expensive.

Mr. Ross. Well, there's another problem with—I think we're moving through a baby boom into a baby bust, and we're just right about the middle of that stage. And what that has to say about housing I really cannot forecast. The numbers that you read, Senator, of the forecast that were made—I'm always leary of forecasts because I remember that oil was suppose to be $80 a barrel by next year. So, I take forecasts with always a grain of salt.

As we look at a baby bust, while the price of housing may have gone up four times over the past 17 years, I think, was the base period, that was a time of great demand for us baby boomers on the beginning of that and probably 30 years old at the end of that. There's now a period of the baby bust where births declined significantly.

So, I think there are some demographic pressures that need to be looked at, Professor, as they impact the demand for shelter. And I'll mention again the later marriage. I don't know if that's a cause or effect. I wish I knew and I don't.

Mr. GARAFFA. Well, the Senator has opened up in talking about encouraging homeownership because it's good for the country, which I think is great words and I agree. And, if what Jerry says and you say is true, that folks are demanding a different lifestyle and different housing style, maybe the housing builders should respond to that and the community should respond to that and everything doesn't have to be a detached single family unit on a 1½ acre of land. We could have the row type housing and different styles of new housing available to the customer. I don't think we make enough of that available. And I think the communities—I think the communities are instrumental in that with their restrictive zoning type of a situation they have.

Professor GREER. From the builder's perspective though you've got to build what the market demands. Because if you don't, you won't be a builder very long. So, if the people want upscale housing, that's what you're going to build.

It seems to me, to continue this idea of the demographics, the rate of increase, of course, in the cost of housing is the function of the rate of construction. So, when the baby bulge gets its first house, the rate of construction is going to drop off and the prices won't go up as fast.

But there's a closely related issue and that is the rather invisible rate of increase in producitivity in construction as compared, for example, with manufacturing. We need R and D that would increase productivity, thus, get those prices down. But you can't—you won't have a lot of R and D until you have construction on a massive enough scale to exploit it. And that means you need a certain amount of uniformity in what the builder has to do to put in houses.

So, it seems to me that a potentially valuable role of the Federal Government would be in the area of model building codes, model

zoning codes so that it would make sense to push a lot of money into R and D. Because when you get a breakthough, you've got a sandwich that really works, and you can, you know, use a building block kind of thing. You can saturate the Nation with it, not just Memphis or what have you. And let all that cost be spread around.

Mr. GILLIS. Has anyone in here ever been on a housing tour of Japan?

They go with a structure and they slide cubicles in. A customer comes in and says, "I want a two bedroom and I want it arranged like this." And then they slide—the space is defined, but what you put within that space they kind of customize. So, they build a high rise and, then, they slide the modules in as the customer wants it, like building blocks. And there in all of our trade shows—I'm talking about the Japanese homebuilders—they bring cars over here, but, believe me, they are looking at our housing situation very strongly. And they like what they see because our housing systems, construction wise, are antiquated, outdated. And a model national building code is something that would be a great help.

Professor GREER. And it's a step the Government can take that—I made notes here to myself—summary: that most people seem to perceive is a drying up of housing subsidies. Now, some people call it a tax on housing. But take away the subsidy—you could view that as a tax, I suppose. Most of the proposed solutions are more subsidies. I'm not sure you can get a whole lot more subsidies today.

Senator SASSER. Yes. And that's a good point.

Professor GREER. But this is an example of a kind of step that has potentially a high payoff and doesn't really involve any sort of a subsidy.

Mr. LIPOW. I kind of take some exception to that. I don't really—I mean, I really appreciate your view and I don't want to seem to be always contradicting you, Professor, but the last thing I think we need is a national building code for several reasons.

One, is that you build locally and you have to take into account differences of climate, building construction materials and regulatory measures overlaid by local government. And second, the ability of the Federal bureaucracy to mess up any regulation boggles the mind.

If we wait for HUD to do Federal regulations, we'll be waiting until housing becomes actually frozen.

But what I do think we need to do is support the National Institute of Building Sciences and the efforts of NIBS to promote industry standards. And there's a big differences between standards and regulatory reform and the overlay of additional regulations. There are housing quality standards, HQS, that vary all over the lot depending of which Federal program you're talking about. And when we send someone out to do minimum property standard evaluations, we have inspectors going absolutely crazy.

So, I believe what we need to do is have standards and a coordination of existing codes rather than one Federal overlay administered by the Federal Government and promulgated by Federal regulation. And I think that that is where we really should be going.

And then the support of the research and development efforts to NIBS especially, which this administration is trying to kill and

Congress has seen fit to fund as an industry based standard development activity.

Mr. GILLIS. Hershel, was it a national code? There are only about four codes in the United States anyway. But each local situation they adopt and amend and change. I mean, that each local situation would obviously have to amend such things as legislation factors for up north versus Florida, earthquake zones, and that type thing. But a national code can be amended to fit local areas.

Professor GREER. You contaminate the concept when you tie it with the concept of Federal regulation because the two don't necessarily go together. My concept of the national code is more—more analogous to the uniform commercial code which is applied locally, not at that Federal level.

Mr. LIPOW. But there is a national code.

Professor GREER. What we need is more of an effort to get it adopted locally and avoid the overlay of local regulations that seem in many cases to be designed to inhibit competition more than to contribute to safety and good housing codes.

Senator SASSER. Before we leave, the question of these first time homebuyers who are making $25,000, $26,000 a year, are 24 years of age to 34, are we going to leave it with this question with the judgment that these people don't want to buy the kind of housing that they can afford; that they prefer to live in an apartment; that the market is not that large because of changing demographics, they're waiting later to get married, and so on.

I believe there's more to this and I think there is some accurate data we've gotten here. And I don't doubt that these opinions are valid. But I run into young people as I get around the State who are in their early 30's, married, maybe have a child or perhaps two, and they want housing and their lament is that they can't afford the house. And their question was: "Why was it that our mom and dad could buy a house when we were youngsters or before we even came along, and now here it is 25 years later and we can't afford a house?" That's the question. And, "What are you going to do about it, Senator?" Now, those are the questions I get.

Mr. Ross. Is it the monthly payment or the downpayment? I guess that's what I've heard questioned. Some people say they don't have the downpayment. They can make the monthly payment. Some have said, well, they have been frugal and have saved. They can make most of the downpayment, but, maybe just don't quite qualify for the monthly. That's what Jerry was alluding to earlier. And that's a question.

Mr. GILLIS. I feel as though I can say it's about fifty fifty from their standpoint. About half don't have the cash and about half can't quite qualify that have the cash.

Mr. LIPOW. Senator, I think that housing is still an American dream. And for many working poor who are at the median income level, it is impossible to buy a home. Yuppies, and I guess I'm one of them, eschew everything. They drive up to a $200,000 condominium in New York City and they take over San Francisco and they're even in Memphis. But for people trying to make an honest living and to buy a home and raise kids and have a good family, they're not looking for the whirlpools. They're looking for a good place to live. And I believe that that market is going to be very

much hurt unless the Congress takes a hard look at the entire housing industry and the barriers to home ownership in this country. And they are growing immensely. There are people, as you know, in Washington, D.C. that drive 70, 80 miles just to get to work from West Virginia because they can't afford to live in our Nation's Capital.

Senator SASSER. I've got a woman who works for me that does that.

Mr. LIPOW. And it isn't so far removed from Memphis, TN. We have folks coming in from Southaven and points south because they can't afford to live here.

Mr. GARAFFA. If I could interject on that. It's the same in the northeast, Senator. Memphians have a good housing market. They get a lot for their dollar. And they really don't have to commute that far. Up north the costs are outrageous.

Senator SASSER. Well, what are the factors effecting the affordability or the lack of affordability for these relatively young first time homebuyers? What are those factors that are present now other than lifestyles that weren't present 10, 15, 20 years ago?

Mr. BOLDING. One of the issues is beyond—it's related—affordability is obviously the big thing. But availability is another. We haven't talked about production. We know that during the past few years we have financed literally thousands and thousands of multifamily units through the multifamily tax exempt bonds. And because the rates were so cheap, people built like crazy. During that same period of time, there was no program at all, that I'm aware of, for single family production.

And, so, the availability of those units simply does not exist. When we came in with our revolving loan program and said, let's generate new units and rehab units at $45,000, people thought we were crazy. Said it couldn't be done. But it is being done and there's an awful lot of folks looking.

So, beyond just trying to make our units affordable by having low interest loans, just the whole concept of affordability and production of units at a lower cost than that $88,000 or $65,000 or whatever, that's a big factor. If families having nothing to look at except $65,000, $75,000, $85,000 houses, well, sure they're going to get knocked out. The reason they're looking because that's all there is. If there was some $45,000, $40,000, and $50,000 out there to look at, which is what Terry's building, you're going to be selling them all day long.

Mr. GARAFFA. Let me ask you a question about that. Hasn't it been—even at that market, hasn't it been difficult to market many of them. I know New Day's having a problem marketing their product. And maybe there's a lot of other reasons for that.

Mr. LYNCH. I think their's is more location. And I don't want to say much about the marketing people they had marketing their houses, but I don't think they're making a big effort to try to get to that market. I think just a lower—there's such a big gap between a $100,000—I think, Senator, you mentioned $88,000 was the average price of a new home, I believe you said, in the State of Tennessee. I think, if I'm not mistaken here, it's about $110,000 in Shelby County now.

Senator SASSER. New construction?

Mr. LYNCH. Yes. I think $108,000. So, obviously, there's a big gap between a $108,000 and wherever the entry level might be for the average home in Memphis.

Professor GREER. Senator, you asked, I think, an important question that shouldn't be ignored. You said, what is different now from 15 or 20 years ago with respect to the affordability? It seems to me the most glaring difference is 15 or 20 years ago we had interest rate ceilings on thrifts and banks that in effect forced savers to subsidize borrowers. We don't have those interest rate ceilings, therefore, you pay more.

Now, as long as savers were subsidizing borrowers, borrowers tended to overconsume in housing relative to other things. Now, they shift their consumption functions, to drop a jargon if you'll excuse me, and choose a little more BMW and a little less house, which is a rational decision on the part of the prospective homebuyer that will show up in the statistics without any explanation, of course. I'm not suggesting you go back to the old system, but it's a very important difference.

Senator SASSER. I will follow up on that, Professor Greer.

The Federal Reserve had just raised the discount rate for the first time in a number of years and it was done in an effort to counter, what Doctor Greenspan interpreted as, inflationary pressure. Whether he is right or whether he is wrong, that's not what we're discussing here. But there is speculation that it may rise again in the near future. I hope that speculation is erroneous.

What do you think, Professor Greer, that the rise of interest rates—how much do you think the rise and fall of these rates will affect the Tennessee housing market?

Professor GREER. I suspect that the rise and fall of the discount rate and related short term rates are not going to be nearly as significant as fluctuations in the long term interest rates which are not always closely tied, you see, to the short term rates. They're influenced, it seems to me, by some other factors over which we have a little less control.

They're influenced by who buys government debt, for example, and whether they intend to ship it out of United States debt into German or Swiss debt. And they're influenced by people's perceptions of long term inflationary trends. If we think inflation is going up, we don't want to hold that long term debt. We want to get out of it and get into short term or into inflation hedges, such as those upscale houses that have been mentioned. So, we overconsume in upscale houses as an inflation hedge.

Mr. Ross. That might be answered more by Frank, too. Back in late March and early April we were advised our volume—our mortgage lending volume was down by 25 percent. And that was a movement from about 8½ to 9½ percent. And, now, they're back up at 10½ and 11 percent. So, just that 1½ a percentage point rise in rates would affect—it affected our expected volumes by 25 percent.

Mr. WILLIS. I think, too, that what you're talking about is just another one of those changes. That 20 years ago you didn't see the—you all correct me if I'm wrong, the fluctuation in interest rates that you see now. The housing—house financing has become more of a market driven source fund than it was in the past. And

that may be the whole approach. To take it out of the—they need to take housing finance out of the general economic system. Because letting the market drive interest rates for home mortgages isn't proving to be a very, very—it's just——

Mr. Ross. The old S&L addage was the three, six, three rule. You took it in at three. You let it out at six. And you were on the golf course by three.

Senator Sasser. Those were the good old days.

Mr. Ross. And then somebody said how the cost of THDA money was so much closer to the market. One of the benefits, honestly, of this freeing up or taking S&L's banks and putting them in the market has really been a more efficient mortgage system. We're able to go, in effect, directly to wall Street with our mortgages by packaging them into a collateralized mortgage obligations. It has narrowed the spreads. But it has made it more efficient. There has been a plus.

Mr. Lipow. Are you doing that with single family?

Mr. Ross. Absolutely.

Mr. Sasser. Frank, you ought to make a comment I think.

STATEMENT OF FRANK CRUMP, PRESIDENT OF TENNESSEE MORTGAGE BANKERS ASSOCIATION, MEMPHIS, TN

Mr. Crump. Senator, I'm here as President of Tennessee Mortgage Bankers Association. And I apologize that my day to day activity is in commercial mortgage lending and I don't have any insight to bring to this committee. I asked George Early, who is the President of the Memphis Mortgage Bankers Association, to join us today. And with your permission, if he has anything to add, I would certainly like to invite him to share it with us.

Certainly, there are those borderline people who, where if rates were to tick up just a little bit, they'd be taken out of the housing marketplace. At the same time from a lender's perspective, it's a risk reward. And they're looking at buying treasuries or SPA loans or other ingredients investment opportunities. And whether or not housing matches is just a business determination that they make.

We have concentrated it seems in the discussion this morning on the side of the equation of how do we get people into the homes. And I think that we also need to recognize that the homeowner will reach and want that jacuzzi in the bathroom when they buy that house.

And they're going to take one notch above what they probably can comfortably afford when they go into the home. And I think they make that decision, whether they want the bass boat or the travel or cars or going to the restaurants every night. Things that I don't think that our folks did. I think that they were a lot more—that house was a lot bigger piece of the puzzle than it is today.

I guess what I'm afraid of is that we create some product to get the first time homeowner into the house in putting them in such fragile circumstances that if you were to sneeze, that all of a sudden the whole house of cards starts to fall. And I think we would do him more harm than good if we don't recognize that through family instability or through mobility in the workplace, or whatever, that maybe that American dream for that home isn't as

big today as it was. I certainly hesitate in putting someone in a house—like Archie's deal, where they actually have some sweat equity to feel a commitment to the home. I want them to have that financial stake in that home.

But I think if we put them in circumstances where if anything were to go wrong for any—a bubble in their normal activities, they couldn't afford that home, then, I think their problems are much more severe than they were as apartment dwellers.

Senator SASSER. Well, that's an interesting observation. I think that there's probably some validity to that, probably a lot as a matter of fact.

Gentlemen, we've been here—you've been good enough to—Henry Turley and I have been here for 1 hour and 40 minutes and the rest of you have been here longer, and we want to try to shut it down by noon. I promised some of you we would. So, we've got 10 more minutes and let's try to make as good of use of that time as we can.

Mr. BOLDING. There's one issue we hadn't talked really very much about and that's the tax code changes last year.

Mr. SASSER. Yes.

Mr. BOLDING. There's a whole set of issues that goes along with that. Maybe the overreaction in the regulations concerning multifamily and expiration of the single family bond program and the lengthening of the depreciation terms. And there's so many issues involved there, I don't even know how to start in such a short time, but it has had a huge impact and I think it's going to continue to. As Archie said, we haven't seen a single application come through for multifamily this year. And a lot of that has to do with the market, and a lot of it has to do with the new rules.

Another thing that came out, the multifamily tax credit which is, theoretically, supposed to make up for the loss of various other tax incentives for multifamily, is a program that just simply cannot work. We've been trying. Stan may want to address that, but it's designed to fail. And I would predict that we won't have a single multifamily tax project come out of Memphis this year.

Mr. ROSS. Let me respond to Tim's comment on the tax law. What I'm seeing is that these multifamily projects—and Lord knows they were using tax exempt bonds for a lot more than just building apartments. It was done for a lot of things that I don't think it was intended for. But it is—we have an ingenious citizenry in this country and they are finding ways to take advantage of the change in the tax law that now make these developments on the basis of good economic sense as opposed to the quote, "tax shelter or tax benefits."

I'm most inclined to let this new tax code kind of work its way through for a couple of years and see what new innovative things come out of it. Because I've seen people approaching us with ideas for multifamily, for commercial, and they are done on economic basis not as a tax shelter. To me that's healthy for the economy.

Mr. HOULE. Senator, could I just address for just a short minute what Tim alluded to and what I refer to as the "Edsel Federal Policy." And that is this new low income housing tax credit.

We at THDA are the administrators of the code. Now we've noticed that there hasn't been—virtually a negligible impact that the

tax credit has had on anything. If the Federal Government isn't already doing something, such as the Farmers Home Program, this program just isn't doing it. At least, it's not doing it right now. And besides the fact that regulations have yet to come in on it. That's the best way in the world to keep the program from working.

We would suggest three things for the tax credit itself other than kind of closing your hands and throwing hands up. One, that—it's a 3 year program and the 1987 credits are going to lapse January 1. What I would suggest is that at least anything that is not allocated in 1987 be allowed to be used by the States and, subsequently used. It's not—supposedly, that's not going to effect revenues or Treasury estimates of tax losses.

The second thing is, maybe, Congress ought to encourage Treasury to issue regulations on the program.

The third thing is, because the incomes and the—rents and the incomes of the project are artificially set extremely low in this program, there is no economic incentive to build this, other than strictly the tax code. And developers that I heard of say: one, that it's not enough of an incentive, and, two, they don't know what Congress is going to do next year to take it away from them.

So, I would suggest that at least a--some type of review be taken to make some adjustments on the income limits and, therefore, the rent levels that are allowed for every area, I would understand, but especially in the nonurban, non-MSA areas. We're talking about income levels at a third what would be necessary just for rehabilitation, much less for construction.

Senator SASSER. Let me ask one final question. Now, I think—at least I judge that everybody around this table believes that homeownership is good public policy and good economic policy and good social policy. I don't know that any of us would disagree with that.

What in your view would be the key thing that the Federal Government could do at this point to further this public policy which we—I think we believe to be wholesome. Anybody got any ideas?

Mr. LIPOW. Well, I might say that it's probably one big idea with a lot of subsets. First of all, I think it's important that Congress reaffirm the value of the 3739 Act. We've never reached their goal of two million housing units a year. Never come real close since the act was established. So, the production side has to come in line with our goal if anyone is to take the Federal Government seriously.

In terms of a delivery system, it seems to me that a lot of good American values have to come into play. We have to believe in free enterprise. We have to believe in public/private partnership. We have to allow the Federal Government to subsidize only those that are truly needy, if I could coin a phrase. And we have to understand that housing markets are very different around the country and have some local flexibility, perhaps even a housing block grant which include both production and subsidy so that we have a long term commitment for a capital asset that is hopefully going to last 30 or 40 years. And an understanding that every time we tinker with the economy at the micro level, we have macro changes and vice versa.

We, I believe, in the housing industry, in local government and Federal Government have been stymied by the ineptitudes of this

administration. And we would rather see no change, then change in the wrong direction because it takes so long to move this battleship of a housing delivery system locally. And there's a great deal of confusion and concern. But we really believe Senator Cranston's effort is going to work and that for the first time in 10 years we have a chance to shape the housing policy of this country in an honest and legitimate way. And we believe that that is going to include three defining roles for everyone that is interested in housing.

But most importantly for those who cannot afford housing, and that's an increasingly large number as you described in your opening remarks, the need is great. We didn't even begin to touch on the public housing side where the waiting lists are immense. And the immense problems with section 8 and subsidies tenant assistance. A very critical issue.

But I think as my last word, Senator, it's the fact that we in Memphis care very much about housing and we're very appreciative of your help and we want to stay the course because this may be a 2 or 3 year process. And with your leadership we believe we'll have a better housing delivery system and a better way of achieving housing for all income groups.

Senator SASSER. Well, thank you, Hershel. That's a very eloquent statement.

Mr. Ross. I'd just like to comment. I'd like to give you something written on your—I think that is the key point and I'd like to give you something written on that as I get input from our executives. We're one of those thrifts that are very diversified by developing land, building houses, compete against Mr. Gillis selling lots, finance houses, and I think we could get a lot of input from a lot of different people within our organization that could focus on this one question. So, I'd like to maybe give you some written follow up.

Senator SASSER. We'd be delighted to receive that. Jerry?

Mr. GILLIS. Senator, immediately I think that Congress has to give us a vote of confidence by giving FHA permanent authority. This up and down, never knowing where you stand situation, that's something.

Senator SASSER. I think you're going to get that, Jerry.

Mr. GILLIS. That's something that can be done. And I think we do have it, but it needs to be pushed on through.

Senator SASSER. Yes.

Mr. GILLIS. And other than doing what you said this morning at breakfast, that interest rates are going to fall in about 6 months.

Senator SASSER. I didn't say that.

Mr. GILLIS. I like your economic forecast.

Senator SASSER. I just said, I hope they won't go up any more. Anybody else got a key ingredient here they think we ought to take away this morning? If it doesn't occur to you now, I would hope that some of you would sort of think about this in the days to come, and if you have any good ideas, reduce them to paper and send them to us.

Mr. Ross. Thank you for the opportunity.

Senator SASSER. Well, gentlemen, the hour is here and I want to thank all of you for coming. I think this has been a most—from my standpoint anyway, I think this has been a most productive 2 hours

this morning. And I'm in your debt very much for taking off a large portion of your morning and coming over here and sharing your ideas and your perceptions and your varied expertise with us. It's been very helpful and I thank you.

Meeting adjourned.

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